

CIAOCI SNMEASA 750224

Approved For Release 2001/08/24 : CIA-RDP96T00608R000400010037-8

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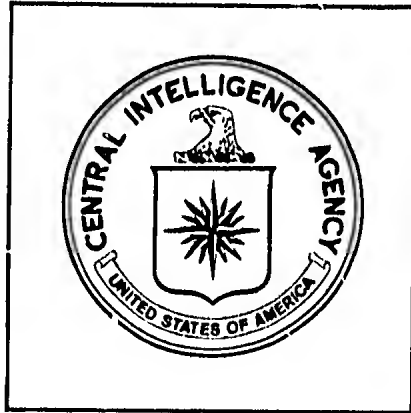
Middle East, Africa, South Asia

24 Feb 75

No. 0433/75

Secret

No Foreign Dissem



STAFF NOTES:

Middle East Africa South Asia

State Dept. declassification & release instructions on file

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No. 0433/75

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MIDDLE EAST - AFRICA - SOUTH ASIA

This publication is prepared for regional specialists in the Washington community by the Middle East - Africa Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Middle East

*Egypt Asks PLO Participation in
Next Conference at Geneva*

Egypt has called on the US and the USSR to invite the Palestine Liberation Organization to participate in the next session of the Geneva conference. The proposal, surfaced in the Cairo press on February 23, is a departure from the previous Egyptian position that favored deferring the issue of PLO participation until after the conference reconvened.

The Egyptian move is designed to counter Palestinian charges that President Sadat is sacrificing the interests of other Arabs for the sake of concluding a second-stage Egyptian-Israeli disengagement agreement. PLO anxiety on this score apparently was heightened by a letter Sadat recently sent to PLO Chairman Yasir Arafat which, according to press accounts, convinced Arafat that a new agreement was likely to be concluded during Secretary Kissinger's next visit to the Middle East.

In an interview with the Beirut press, the chief of the Syrian-controlled PLO group, Saiqa, claimed that Sadat has agreed to joint Egyptian-Israeli control of the strategic Sinai passes and the Abu Rudays oil fields, and to a long-term peace agreement. The Saiqa leader, Zuhayr Muhsin, labeled the alleged agreement a conspiracy and declared that both the PLO and Syria would actively work against it.

25X1C The prospect of a second-stage agreement evidently has created new tension and division within the PLO leadership. [REDACTED] Saiqa met last week to discuss reports that PLO political spokesman Qaddumi had agreed to support Egyptian policy on withdrawals and to authorize Egypt, rather than Jordan, to negotiate with Israel on behalf of the PLO. At the meeting, Saiqa leader Muhsin and Popular Democratic Front for the Liberation of Palestine head Hawatmah condemned Arafat and Qaddumi. Syrian Foreign

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Minister Khaddam, who also attended, claimed that Syria is getting fed up with Fatah. Khaddam called on the Popular Democratic Front and Saiqa to try to force Arafat to reject Egypt's position. The dispute presumably was aired at a long PLO executive committee meeting this weekend. (SECRET NO FOREIGN DISSEM/NO DISSEM ABROAD/CONTROLLED DISSEM)

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Libya*Corruption on the Rise*

President Qadhafi, who prides himself--often publicly--on the probity of his administration, will have to do some serious housecleaning if he is to maintain his credibility on this score. According to US officials in Tripoli, graft, kickbacks, and influence peddling--practices that were virtually stamped out following Qadhafi's takeover in 1969--are once again becoming the Libyan way of doing business. The problem is likely to get worse over the next year, inasmuch as the government intends to spend well over \$5 billion--the largest budget in the country's history.

The rising level of government expenditures in a mixed economy where administrative inefficiency and poor accounting practices prevail is providing ample opportunities for enrichment to Libyan officials and businessmen, many of whom have little regard for Qadhafi, his socialist attitudes, and spartan lifestyle. Western observers report that connivance among government officials, local contractors, agents of all sorts and foreign suppliers is now a regular occurrence. The price of doing business is high; for example, kickbacks of up to 20 percent of a given contract are often required for closing a deal.

Venality of this sort would be a less threatening problem for the regime if it were confined to the civilian sector of the economy, but the new wave of corruption seems to have penetrated the sensitive area of military procurements. [REDACTED]

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[REDACTED] a shadowy organization called the African Trade and Import Company is now brokering many if not all armed forces' contracts. According to one explanation, the company was set up to generate a source of clandestine funds for the Libyan intelligence service and to monitor the activities of foreign companies dealing with the Libyan defense establishment. Other observers speculate that the

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company is simply a mechanism for laundering kick-backs for military procurement officers. In any event, the existence of the company is causing embarrassment and concern in some government quarters and poses a serious problem for foreign firms seeking contracts.

Much of this activity is the result of a new "get it while you can" mentality fostered in part by greater delegation of authority throughout the bureaucracy. Early in his career, Qadhafi relentlessly pursued the more venal elements of Libyan society, but as the burdens of his office have increased he has become less watchful. That corruption has increased as Prime Minister Jallud has picked up the administrative slack is not surprising. Jallud has a well-established reputation for having profited considerably from his role as the regime's chief oil and arms negotiator.

The Libyan media have hinted darkly that a crackdown is in the offing, but Qadhafi will have to move cautiously in cleaning up the military, which is still his primary source of support. Should he allow the problem to fester, however, he will eventually be vulnerable to the same charges that he used so successfully to bring down the regime of King Idris. (SECRET NO FOREIGN DISSEM/NO DISSEM ABROAD/BACKGROUND USE ONLY/CONTROLLED DISSEM)

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Bahrain*Foreign Policy Review*

When Bahrain became independent in mid-1971 the UK terminated the treaty arrangement under which it had guaranteed the island's security and conducted its foreign policy. Since then Bahrain has had considerable success in building foreign relationships, giving it a renewed sense of protection and support. The US embassy gives Bahrain's foreign policy high marks, and attributes this to Manama's careful calculation of its vital interests and its refreshing acceptance of the country's miniscule role in even regional affairs.

The keystone of Bahrain's foreign policy is to maintain its currently good relations with Iran and Saudi Arabia, and to encourage better ties between Tehran and Riyadh, in order to avoid getting caught in the middle should the two regional powers have a falling-out. Manama recognizes Iran as the dominant Persian Gulf power and the only country capable of picking up the UK mantle for policing the region. Bahrain mutes its dependence on Tehran, however, because of pockets of anti-Iranian sentiment on Bahrain. Iran maintained a claim to the Persian Gulf island until it renounced it in 1970. Sheikh Isa, the ruler of Bahrain, is somewhat apprehensive that Tehran might become less discreet and decide to play a more aggressive role in the region, especially after the Shah passes from the scene.

Bahrain openly pursues its relationship with Saudi Arabia, its other mainstay. King Faysal has in the past provided generous help in various ways, and Bahrain knows its economic well-being is closely linked to the Saudis. Bahrain's oil refinery which provides a significant share of the island's income is largely dependent on Saudi crude oil and Manama recognizes that its economic future will be enhanced if it can continue to provide food, goods, and services for Saudi Arabia's booming Eastern Province. Ideally, Bahrain would like to have the security of an expanded Saudi role in the Gulf.

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Bahrain's relations with other Persian Gulf countries are more complex. The Bahrain ruling family likes and respects the Sabahs, its Kuwaiti counterpart, although it occasionally becomes vexed when liberal Kuwaiti policies cause adverse reactions in Tehran and Riyadh. When the Khalifas began receiving oil revenue in the 1930s, they were generous in their aid to the Sabahs, who then ruled a relatively impoverished desert sheikhdom; this generosity has been returned manyfold since Kuwait became affluent.

In 1971, Bahrain chose to remain aloof from the UK-sponsored United Arab Emirates, but now looks sympathetically toward some form of increased cooperation with its Gulf neighbors. This will probably take the form of economic and social ties and not have any political ramifications. The Khalifas fear being submerged by the UAE's greater oil revenue and population.

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Bahrain's relations with Qatar are somewhat strained; [REDACTED]

[REDACTED] The two countries also have a territorial dispute over Hawar Island, now under Bahraini control despite its proximity to Qatar.

The demon closest to hand, in the Bahraini view, is Iraq. [REDACTED]

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The Bahraini leadership unequivocally identifies the Soviet Union as the major threat to a peaceful and prosperous Gulf. Bahrain has rebuffed Moscow's bids to establish a diplomatic presence in Manama. On the strategic level, Bahrain looks to the US to keep Moscow at bay, and to do so away from the Gulf. The Khalifas are also concerned about the long-range impact of Soviet scholarship offers to Bahraini youth.

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Bahrain shows no inclination to see its present relations with the UK diminished. In fact, according to the US embassy, the desire for a special link to the West seems to have intensified. The government is eagerly receptive to close official relations with the US, not at the expense of the UK, but as a complement to its relations with London.

Two aspects of the US-Bahrain relationship trouble the Khalifas. One is the effect on this relationship of the Middle East problem. The Bahrainis are anxious that US efforts to achieve an Arab-Israeli settlement proceed apace and show signs of success. They fear that a renewal of hostilities will require Manama to follow frontline Arab opinion, and lead to a rupture of ties with the US.

The other thing causing the Khalifas some trouble is the US Navy presence in Bahrain. They are, for a price, prepared to harbor the US Navy's Middle East Force, but the Khalifas are anxious that bilateral relations be broadened and become more active, so as to de-emphasize the US navy presence. The Bahrainis are looking for more US technical assistance, as well as an expansion of US private business activity in Bahrain. (SECRET NO FOREIGN DISSEM/BACKGROUND USE ONLY)

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Angola

*Daniel Chipenda Joins National Front
for the Liberation of Angola*

Daniel Chipenda, a former leader of the Popular Movement for the Liberation of Angola, announced on February 21 that he and his 2,000 to 3,000 troops will join Holden Roberto's National Front for the Liberation of Angola. The move will give the National Front an important advantage over the rival Popular Movement. Both organizations are weak in the east and draw much of their support from northern Angola.

Trouble is likely to develop when Chipenda begins campaigning on behalf of the National Front. This could put severe strains on the truce that is supposed to hold the transitional government together until independence next November.

Chipenda quit the Popular Movement over a year ago after a bitter dispute with its president, Agostinho Neto. He may have some trouble getting all of his supporters to make the switch to the National Front. A spokesman for Neto announced in Angola on Saturday that a number of Chipenda's officers have returned to the Popular Movement.
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Nepal*King Birendra Crowned*

King Birendra, 29-year old ruler of the world's only Hindu theocracy, was formally crowned on February 24 in Kathmandu. Birendra ascended the throne in early 1972 following the death of his father, but by custom had to await the day royal astrologers deemed most auspicious for his coronation.

The young King is somewhat of an enigma. Educated in India and the West, his experience and exposure would seem to have groomed him to take his essentially feudal country into the twentieth century. In three years, however, he has taken few positive steps to boost the living standards of his 12 million subjects. Although publicly committed to social and economic change and liberalizing the political system, he seems to believe a strong monarchy is both essential to Nepal's identity and independence and necessary to keep the country's ethnically diverse society together.

Birendra's political style is emerging slowly and reflects growing self-confidence. He has begun to consult other more experienced officials rather than merely to command. Like his father, he is clearly adept at manipulating politicians and members of the royal family. The King retains the loyalty of all security forces and currently faces no significant challenge to his authority. He does, however, face several serious domestic and foreign problems that will test his leadership.

Popular dissatisfaction is growing as the promised changes fail to materialize and economic conditions worsen. Although Nepal is a food surplus country, people are grumbling about the King's inability to ease shortages of other consumer goods, to stem inflation--currently about 20 percent--and to check corruption within the government and royal family. Many also seem to feel that they are cut off from the palace and that no one in Kathmandu is representing their interests.

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These frustrations are compounded by the lack of distinct lines of authority within the Nepalese bureaucracy. Ministers have little or no power. All significant decisions are made or can be overruled by the King and a few close advisers. Because bureaucrats are reluctant to make decisions even on the most routine matters almost nothing gets done quickly.

Although there is considerable disgruntlement, especially among educated city dwellers who seek a share of power, most Nepalese support and want to retain the King. There is recognition that external economic factors--the skyrocketing cost of oil and imported consumer goods--have compounded Birendra's problems and hampered his efforts to effect change.

Birendra, for his part, knows that while his position is now secure, a sharp erosion of public confidence in his regime could lead to a serious deterioration of law and order. Furthermore, such a situation would encourage exiled extremist elements of the banned Nepali Congress Party to launch a terrorist campaign designed to force the adoption of a political system under which the King's authority would be severely limited. The party demands the total abandonment of Nepal's system of indirect democracy--four levels of elected councils or panchayats from village to national--in favor of a weak constitutional monarchy with a parliament directly responsible to the people. The party is the only viable opposition group, and its leader, former prime minister B. P. Koirala, is the only nationally known opposition figure with enough stature to cause the King any concern.

Party leaders have enjoyed safe-haven in India since 1960. New Delhi has allowed the party relatively free rein over the years, but claims to have seriously hampered the group's activities by tightening restrictions on its movements in recent months. The Nepali Congress Party poses no real threat to the regime in Kathmandu so long as New Delhi continues to restrain the politically active exiles. They only

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number a few hundred and have limited amounts of arms. A somewhat larger number in Nepal sympathize with the party's aim, but they are fragmented and disorganized. Party leaders are complaining about the Indian restrictions and that their organization is running out of money.

The King seems to be moving slowly toward adopting some moderate political reforms. He has recently encouraged open debate, albeit within limits, on constitutional reform. This month he announced the formation of a six-member constitutional reform commission that is to report within six months. The inclusion of one moderate former leader of the Congress Party could signal a possible future reconciliation between the palace and moderate opposition elements. This would isolate Koirala even further.

Internationally, Birendra adheres to a policy of neutrality and friendliness toward all countries. His main concern is to maintain friendly ties with Nepal's giant neighbors, India and China. Birendra would like to lessen Nepal's economic dependence on India, but realizes that geography makes this difficult. He knows Nepal has much more to lose than India if relations sour. New Delhi either supplies or controls the passage of almost all of Nepal's essential imported commodities. Certain key commodities, paid for in rupees rather than hard currency, fall under an annually-reviewed trade and transit agreement. New Delhi is also one of Nepal's principal aid donors. Furthermore, the King is painfully aware that India in effect holds the reins on the Nepali Congress Party.

India, for its part, views landlocked Nepal as a crucial buffer to China. New Delhi wants a politically stable government in Kathmandu that is responsive to Indian wishes. At the same time, India favors political changes in Nepal that would weaken the monarchy and establish a parliamentary system similar to India's. The Indians are highly sensitive to political events in Nepal and to any moves they interpret as endangering the special relationship

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that has existed between the two countries since the early 1950s. Despite its proclaimed commitment to non-interference in Nepalese affairs and support for the monarchy, New Delhi at times uses economic and political pressure to influence Nepalese policies.

At present, bilateral relations are uneasy. Birendra was shaken by India's tightening of its control over the Indian protectorate of Sikkim last summer and probably gave tacit approval to anti-Indian demonstrations that occurred in Kathmandu. The Indians reacted sharply, recalling their ambassador for over two months. The King is concerned that India's pique over these events--which apparently continues--may signal the beginning of an economic squeeze designed to force compliance with New Delhi's political desires. He fears the Indians will drive a harder bargain in negotiations for a new trade and transit agreement--the current one expires in April--possibly including higher prices, lower quantities or hard currency payments for key commodities. Although New Delhi at this time probably does not plan to do more than pass on its own increased costs and restrict export of commodities in short supply in India, the outcome of the negotiations will be greatly affected by the general state of bilateral relations.

The King will try to diversify trade to reduce dependence on India. His room for maneuver is limited, however, even if he can find other sources of supply. Nepal is essentially an agricultural economy that produces few commodity exports that can compete on world markets. Additionally, the great bulk of imports still will have to transit India, thereby preserving New Delhi's leverage.

China remains Birendra's only real counterbalance to New Delhi's power and assertiveness. The King will probably try to play on India's wariness of China in order to ensure Indian restraint toward Nepal. He will hope to convince the Indians that the Chinese are a guarantor of Nepalese sovereignty. Despite public assurances of "firm support" against "foreign intervention" the Chinese clearly have indicated that they will provide only political and economic backing.

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China's aid projects, however, are a constant reminder to India of Peking's interest in maintaining a highly visible presence in Nepal. China clearly had New Delhi in mind when it agreed earlier this month to undertake a major road project in Nepal. This will be the largest foreign aid project and will probably make China Nepal's largest aid donor.
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